Vestas

Company announcement No. 23 2018

Interim financial report
First quarter 2018

Vestas Wind Systems A/S
Hedeager 42,8200 Aarhus N, Denmark
Company Reg. No.: 10403782

Wind. It means the world to us.™

Contents

Information meeting (audiocast)
On Friday 4 May 2018 at 10 a.m. CEST (9 a.m. BST), Vestas will host an information meeting via an audiocast. The audiocast will be accessible via vestas.com/investor.

The meeting will be held in English and questions may be asked through a conference call. The telephone numbers for the conference call are:

Europe:	+44 203 008 9806
USA:	+1 855 83159 44
Denmark:	+45 3544 5579

Presentation material for the information meeting will be available at vestas.com/investor approximately one hour before the meeting.

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Summary

Revenue, earnings, and free cash flow decreased compared to last year's very strong first quarter. Solid order intake and combined order backlog at high level. Guidance for 2018 maintained.

In the first quarter of 2018, Vestas generated revenue of EUR 1,694m – a decrease of 10 percent compared to the year-earlier period. EBIT decreased by EUR 85m to EUR 126m. The EBIT margin was 7.4 percent compared to 11.2 percent in the first quarter of 2017 and free cash flow* amounted to EUR (587)m compared to EUR 8m in the first quarter of 2017.

The intake of firm and unconditional wind turbine orders amounted to 1,629 MW in the first quarter of 2018. The value of the wind turbine order backlog amounted to EUR 9.3bn as at 31 March 2018. In addition to the wind turbine order backlog, Vestas had service agreements with expected contractual future revenue of EUR 12.3bn at the end of March 2018. Thus, the value of the combined backlog of wind turbine orders and service agreements stood at EUR 21.6bn – an increase of EUR 1.6bn compared to the year-earlier period.

Vestas maintains its 2018 guidance on revenue of EUR 10bn-11bn, EBIT margin of 9-11 percent, total investments* of approx. EUR 500m, and free cash flow* of minimum EUR 400m.

Group President & CEO Anders Runevad said: *"The wind energy industry continues to drive down electricity prices and further enable integration of sustainable energy, creating a larger long-term market for wind power solutions. In the short term, however, this has entailed fierce competition that has impacted profitability in the sector, which together with currency headwinds for Vestas resulted in first quarter 2018 results that are lower than last year's historically strong first quarter. At the end of the first quarter of 2018, Vestas had an all-time high order backlog, solid revenue and a best-in-class EBIT margin, while our service revenue grew organically by 5 percent and continued to deliver solid margins. Vestas continues to execute on its strategy, manage its cost base and use its leading position to invest in technology and innovations that over the long term will enable Vestas to increase wind energy's prominence in the global energy mix."*

Key highlights

All-time high order backlog
Wind turbine and service order backlog of EUR 21.6bn; up 8 percent year-on-year.

Revenue of EUR 1,694m
5 percent organic decline compared to record-high revenue in Q1 2017.

EBIT of EUR 126m
EBIT margin at 7.4 percent.

Solid service performance
Organic revenue growth of 5 percent, and EBIT margin of 26.8 percent.

*) Excl. the acquisition of Utopus Insights, Inc., any investments in marketable securities, and short-term financial investments.

Financial and non-financial highlights

mEUR	Q1 2018[1)]	Q1 2017[1)]	FY 2017
Financial highlights			
Income statement			
Revenue	1,694	1,885	9,953
Gross profit	281	377	1,963
Operating profit before amortisation, depreciation and impairment (EBITDA)	225	301	1,651
Operating profit (EBIT)	126	211	1,230
Net financial items	(7)	14	2
Profit before tax	137	214	1,192
Profit for the period	102	160	894
Balance sheet			
Balance sheet total	11,117	10,267	10,871
Equity	3,071	3,308	3,112
Investments in property, plant and equipment	58	40	268
Net working capital	(1,526)	(1,710)	(1,984)
Net invested capital	296	(66)	397
Interest-bearing position (net), end of the period	2,607	3,192	3,359
Cash flow statement			
Cash flow from operating activities	(468)	(4)	1,625
Cash flow from investing activities before acquisitions of subsidiaries, investments in marketable securities and short-term financial investments	(119)	12	(407)
Free cash flow before acquisitions of subsidiaries, investments in marketable securities and short-term financial investments	(587)	8	1,218
Free cash flow	(652)	8	1,218
Financial ratios[2)]			
Financial ratios			
Gross margin (%)	16.6	20.0	19.7
EBITDA margin (%)	13.3	16.0	16.6
EBIT margin (%)	7.4	11.2	12.4
Return on invested capital[3)] (ROIC) (%)	708.5	353.3	(9,044.1)
Net interest-bearing debt / EBITDA[3)]	(1.7)	(1.6)	(2.0)
Solvency ratio (%)	27.6	32.2	28.6
Return on equity[3)] (%)	26.5	35.8	28.1
Share ratios			
Earnings per share[4)] (EUR)	4.3	5.0	4.2
Dividend per share (EUR)	-	-	1.24
Payout ratio (%)	-	-	29.9
Share price at the end of the period (EUR)	57.7	76.2	57.6
Number of shares at the end of the period	215,496,947	221,544,727	215,496,947
Operational key figures			
Order intake (bnEUR)	1.2	1.8	8.9
Order intake (MW)	1,629	2,049	11,176
Order backlog – wind turbines (bnEUR)	9.3	9.0	8.8
Order backlog – wind turbines (MW)	11,899	9,962	11,492
Order backlog – service (bnEUR)	12.3	11.0	12.1
Produced and shipped wind turbines (MW)	2,438	2,371	11,237
Produced and shipped wind turbines (number)	890	883	4,241
Deliveries (MW)	1,192	1,553	8,779

1) Neither audited nor reviewed.
2) The ratios have been calculated in accordance with the guidelines from “Finansforeningen” (The Danish Finance Society) (Recommendations and Financial ratios 2015).
3) Calculated over a 12-month period.
4) Earnings per share has been calculated over a 12-month period and in accordance with IAS 33 on earnings per share.

	Q1 2018[1]	Q1 2017[1]	FY 2017
Social and environmental key figures[2]			
Occupational health & safety			
Total recordable injuries (number)	57	67	243
- of which lost time injuries (number)	21	28	92
- of which fatal injuries (number)	0	0	1
Consumption of resources			
Consumption of energy (GWh)	184	153	569
- of which renewable energy (GWh)	72	70	325
- of which renewable electricity (GWh)	59	58	264
Consumption of fresh water (1,000 m^3)	109	85	454
Waste disposal			
Volume of waste (1,000 tonnes)	19	17	71
- of which collected for recycling (1,000 tonnes)	9	9	39
Emissions			
Emission of direct CO_2 (1,000 tonnes)	23	17	60
Emission of indirect CO_2 (1,000 tonnes)	9	8	26
Local community			
Environmental accidents (number)	0	0	0
Breaches of internal inspection conditions (number)	0	0	0
Employees			
Average number of employees	23,724	21,904	22,504
Number of employees at the end of the period	23,910	22,083	23,303
Social and environmental indicators[2]			
Occupational health and safety			
Incidence of total recordable injuries per one million working hours	4.6	6.0	5.3
Incidence of lost time injuries per one million working hours	1.7	2.5	2.0
Absence due to illness among hourly-paid employees (%)	2.3	2.5	2.3
Absence due to illness among salaried employees (%)	1.2	1.3	1.2
Products			
CO_2 savings over the lifetime on the MW produced and shipped (million tonnes of CO_2)	66	67	317
Utilisation of resources			
Renewable energy (%)	39	46	57
Renewable electricity for own activities (%)	100	100	100
Employees			
Women in Board of Directors[3] and Executive Management (%)	21	23	23
Women at management level[4] (%)	19	19	19
Non-Danes at management level[4] (%)	63	61	63

1) Neither audited nor reviewed.
2) Accounting policies for social and environmental key figures for the Group, see page 62 of the Annual report 2017.
3) Only Board members elected by the general meeting are included.
4) Employees at management level comprise Leadership Track positions, i.e. managers, specialists, project managers, and above.

Financial performance

Income statement

Revenue

In the first quarter of 2018, revenue amounted to EUR 1,694m – a decline of 10 percent compared to the record-high first quarter of 2017, primarily driven by decreased revenue in the Power solutions segment. In the first quarter of 2018, revenue was negatively impacted by currency development of approx. EUR 100m, primarily driven by the EUR/USD development.

Gross profit

Gross profit amounted to EUR 281m, corresponding to a gross margin of 16.6 percent – a 3.4 percentage point decrease from the first quarter of 2017. The gross profit decrease was driven by less project deliveries and a corresponding decline in revenue combined with an impact on profitability from increased price pressure and a competitive environment. This is offset by improved performance within the Service segment with improved profitability benefitting from reliable performance of the wind turbines under service contracts in combination with an efficient cost management.

Research and development costs, Distribution costs, and Administration costs

Research and development costs recognised in the income statement amounted to EUR 48m, which was higher than the comparable EUR 42m in the first quarter of 2017, mainly driven by amortisation of development projects.

Distribution costs amounted to EUR 49m in the first quarter of 2018, equivalent to 2.9 percent of revenue, down from 3.3 percent in the first quarter of 2017.

Administration costs corresponded to 3.4 percent of revenue in the first of quarter 2018, largely in line with the level in the first quarter of 2017.

Operating profit (EBIT)

EBIT amounted to EUR 126m in the first quarter of 2018, equivalent to an EBIT margin of 7.4 percent. The EBIT margin decreased by 3.8 percentage points compared to first quarter of 2017, mainly driven by the decreased gross profit.

Depreciation, amortisation and impairment amounted to EUR 99m in the first quarter 2018, compared to EUR 90m in the first quarter 2017.

Income from investments in joint ventures

Income from investments in joint ventures amounted to EUR 18m in the first quarter of 2018, compared to a loss of EUR 11m in the first quarter of 2017. The improvement was mainly attributable to timing difference in reversal of elimination of share of profit on deliveries from Vestas to MHI Vestas Offshore Wind.

Financial items

In the first quarter of 2018, net financial items amounted to a net cost of EUR 7m against a net income of EUR 14m in the first quarter of 2017. The development was mainly driven by various currency effects.

Income tax

Income tax amounted to EUR 35m in the first quarter of 2018, equivalent to an effective tax rate of 25 percent. Effective tax rate is unchanged compared to the first quarter of 2017.

Profit for the quarter

Profit amounted to EUR 102m in the first quarter of 2018, which is a decrease of 36 percent compared to the first quarter of 2017, a decline attributable to the lower gross profit and EBIT.

Balance sheet

Working capital

Net working capital amounted to a net liability of EUR 1,526m at the end of the first quarter of 2018, which is below a level of EUR 1,710m at the same time last year. This development was impacted by inventory build-up for deliveries later in the year, though to a large extent funded by increasing prepayments from customers.

Other operating assets and liabilities

Return on invested capital (ROIC)

Return on invested capital was 708.5 percent in the first quarter of 2018, up from 353.3 percent in the first quarter of 2017, primarily driven by net working capital elements.

Capital structure and financing items

Equity

As at 31 March 2018, total equity amounted to EUR 3,071m, a 7 percent reduction from EUR 3,308m as at 31 March 2017. This was mainly a result of share buy-backs and impact from change in accounting policy (IFRS 15).

Acquisition of subsidiary

In the first quarter of 2018, Vestas acquired Utopus Insights, Inc., which is reflected in the balance sheet as at 31 March 2018. The main impact relates to intangible assets which have increased by EUR 83m of which EUR 70m is goodwill, representing synergies expected from combining the operations of Vestas and Utopus, and EUR 13m in technology (included in other intangible assets).

Share buy-back programme

The Board of Directors of Vestas Wind Systems A/S has initiated a share buy-back programme of up to DKK 1,500m (approx. EUR 200m) to be executed during the period 12 February 2018 to 3 May 2018. The share buy-back programme is structured according to the safe harbour regulation. In the first quarter of 2018, transactions of a total value of DKK 838m (approx. EUR 112m) were made under the programme.

The main purpose of the share buy-back programme is to adjust the capital structure of Vestas and to meet the obligations arising from employee share-based incentive programmes, Vestas bought 1,921,793 shares under the share buy-back programme during the first quarter of 2018.

Net interest-bearing position and cash position
At the end of the first quarter 2018, the net interest-bearing position was positive of EUR 2,607m, a decrease of EUR 585m, compared to the end of the first quarter of 2017 with a positive net interest-bearing position of EUR 3,192m.

Cash and cash equivalents amounted to EUR 2,901m in the first quarter of 2018, down 17 percent from the record-high level of EUR 3,487m in the first quarter of 2017; impacted by change in net working capital and cash distribution to shareholders.

Solvency ratio
At the end of March 2018, the solvency ratio was 27.6 percent, which is a decline of 4.6 percentage points from the end of March 2017, driven by the combination of high total assets and lower equity.

Cash flow
Operating activities
Cash flow from operating activities was negative EUR 468m in first quarter 2018, compared to negative EUR 4m first quarter last year. The decrease was a result of lower profit for the quarter and negative change in net working capital.

Net investments
Cash flow used for investing activities amounted to negative EUR 184m in the first quarter of 2018. Investments were mainly driven by tangible blade investments as well as capitalised R&D projects, but also impacted by the acquisition of Utopus Insights, Inc.

Free cash flow
Free cash flow, excluding investments in marketable securities and short-term financial investments, and including the acquisition of Utopus Insights, Inc., amounted to negative EUR 652m. Excluding acquisitions, free cash flow was negative of EUR 587m in the first quarter of 2018.

Power solutions

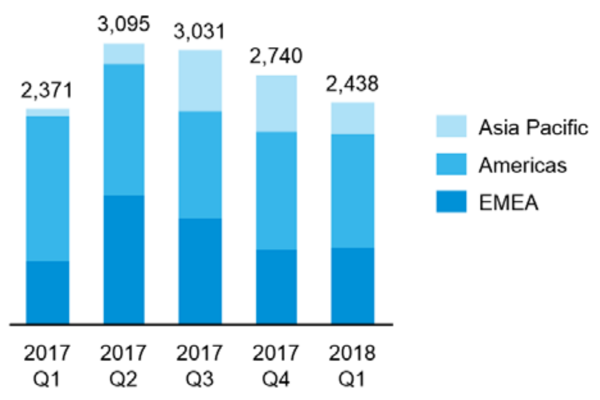
Result for the period
In the first quarter of 2018, revenue from the Power solutions segment decreased by 12 percent to EUR 1,328m, compared to the first quarter of 2017. The decrease was primarily driven by a decrease in deliveries to customers, as well as negative impacts from currency rate developments.

EBIT amounted to EUR 78m in the first quarter of 2018, relative to EUR 191m in the first quarter of 2017. Consequently, the EBIT margin from Power solutions was 5.9 percent in the first quarter of 2018, down 6.7 percentage points from the first quarter of 2017. The decrease was mainly a consequence of lower volumes, combined with lower average project margins.

Notwithstanding the competitive markets, it should be emphasised that project margins depend on a variety of factors, i.e. wind turbine type, geography, scope, and uniqueness of the offering.

Level of activity
Vestas had a busy first quarter with a high activity level in its factories. In the first quarter of 2018, Vestas produced and shipped wind turbines with an aggregate output of 2,438 MW against 2,371 MW in the first quarter of 2017.

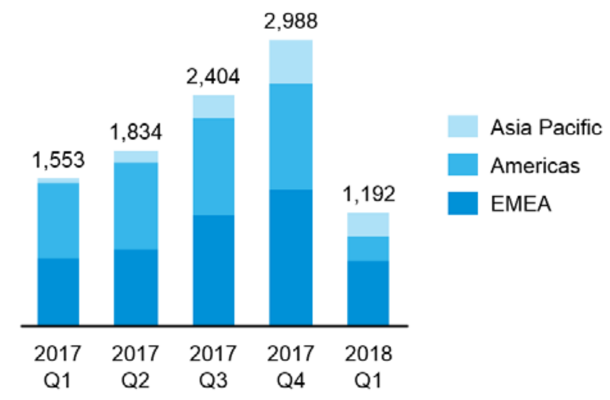
Produced and shipped
MW



Deliveries to customers amounted to 1,192 MW – a decrease of 23 percent compared to the first quarter of 2017. The decrease was driven by Americas where relatively high PTC component deliveries were seen in the first quarter of 2017.

By the end of first quarter 2018, Vestas had installed a total of 90 GW onshore capacity in 79 countries, including its first-ever deliveries in Bahrain and Belarus.

Deliveries
MW



Order intake
In the first quarter of 2018, order intake amounted to 1,629 MW, corresponding to EUR 1.2bn. 72 percent of total orders were announced.

Order backlog
At the end of the first quarter of 2018, the order backlog amounted to 11,899 MW, equalling EUR 9.3bn. Compared to the order backlog of 9,962 MW in first quarter last year, the order backlog in MW increased by 19 percent while it increased by approx. EUR 300m in value.

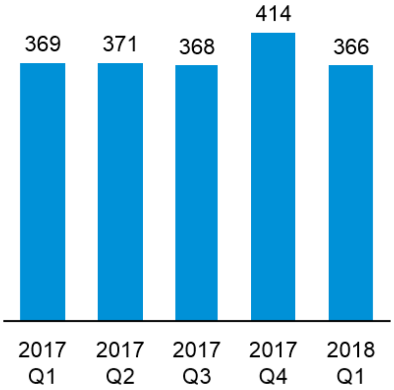
Service

Result for the period

The service business generated revenue of EUR 366m in the first quarter of 2018, on par with the first quarter of 2017, however, negatively impacted by currency development of approx. EUR 22m, primarily driven by the EUR/USD development.

Service revenue

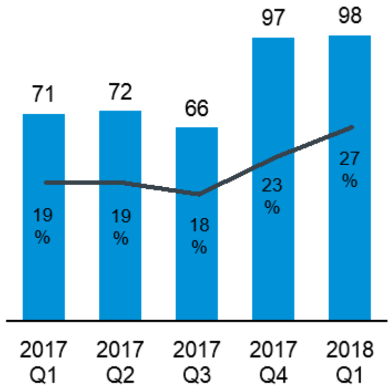
mEUR



Importantly, the profitability of the service business improved in the first quarter of 2018 with an EBIT margin of 26.8 percent, compared to an EBIT margin of 19.2 percent in the first quarter of 2017; and increase of 7.6 percentage points. A reliable performance of the wind turbines under service contracts in combination with an efficient cost management contributed to the margin performance for the service operation.

Service EBIT

mEUR and percentage



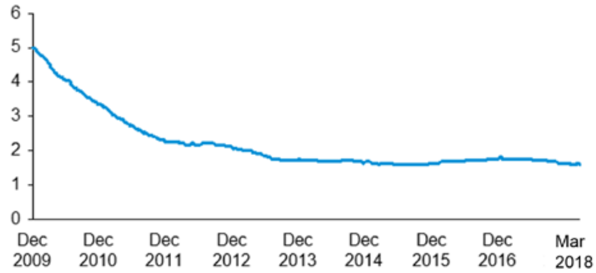
Level of activity

By the end of first quarter of 2018, Vestas had more than 40,000 wind turbines under service equivalent to approx. 78 GW.

At the end of March 2018, the overall average Lost Production Factor for the wind power plants was below 2 percent where Vestas guaranteed the performance.

Lost Production Factor*

Percent



*) Data calculated across approx.23,700 Vestas wind turbines under full-scope service.

Order backlog

At the end of March 2018, Vestas had service agreements in the order backlog with expected contractual revenue of EUR 12.3bn, an increase of EUR 1.3bn compared to end of March 2017. At the end of the quarter, the average duration in the service order backlog was approx. seven years; an improvement compared to an average duration of six years end of March 2017.

Market development

Deliveries and wind turbine backlog per region

The order backlog amounted to 11,899 MW as at 31 March 2018, an increase compared with the order backlog level of 9,962 MW as at 31 March 2017.

Order intake and wind turbine order backlog per region
MW

	EMEA	Americas	Asia Pacific	Total
Order intake Q1 2018	654	814	161	**1,629**
Backlog as per 31 Mar 2018	5,201	4,972	1,726	**11,899**

Europe, Middle East, and Africa (EMEA)

Deliveries in EMEA in the quarter totalled 674 MW compared to 706 MW in the previous year. Deliveries were distributed throughout a number of countries in the region, with Germany being the country where most capacity was delivered.

The order intake for the region amounted to 654 MW, down from 802 MW in the first quarter of 2017. The order intake in the quarter was coming mainly from Italy, France, and Germany. The order backlog comprised 5,201 MW as at 31 March 2018.

Americas

Deliveries in the Americas region amounted to 274 MW, compared to 790 MW in the first quarter of 2017. The decrease was mainly linked to the high level of PTC component deliveries in the first quarter of 2017.

In the quarter, order intake amounted to 814 MW for the Americas region, of which 789 MW came from the USA. The order backlog for the region amounted to 4,972 MW as at 31 March 2018, of which the majority relates to orders in the USA.

Asia Pacific

Deliveries to the markets in Asia Pacific totalled 244 MW compared to 57 MW in the previous year. A large part of the increase was attributable to India, but the rest of Asia Pacific also contributed to the performance.

The order intake for the region amounted to 161 MW, down from 326 MW in the first quarter of 2017. Orders were mainly coming from India and Thailand. The order backlog amounted to 1,726 MW as at 31 March 2018.

Deliveries
MW

	Q1 2018	Q1 2017	FY 2017
Germany	298	219	1,336
Denmark	123	32	304
Italy	94	15	35
France	77	45	568
Austria	26	10	83
Greece	20	15	128
Norway	14	-	73
United Kingdom	11	241	499
Finland	7	35	303
Belarus	2	-	-
Bahrain	2	-	-
Turkey	-	57	136
Belgium	-	25	97
Sweden	-	10	186
Spain	-	2	22
Morocco	-	-	120
Ireland	-	-	111
Ukraine	-	-	62
EMEA	**674**	**706**	**4,063**
USA	261	672	2,988
Honduras	13	-	46
Uruguay	-	54	57
Mexico	-	50	50
Brazil	-	14	448
Canada	-	-	224
Argentina	-	-	26
Curaçao	-	-	17
Americas	**274**	**790**	**3,856**
India	123	30	94
Australia	57	-	70
China	38	27	578
Mongolia	26	-	50
South Korea	-	-	46
Japan	-	-	22
Asia Pacific	**244**	**57**	**860**
Total	**1,192**	**1,553**	**8,779**

Strategy and financial and capital structure targets

(For an extended introduction to the Vestas strategy, please refer to the Annual report 2017.)

Vestas' strategy – the route to continuing leadership in sustainable energy

The decarbonisation of the energy sector is underway, and estimates show that renewable energy will dominate future power generation. Wind energy is becoming a mainstream source of energy, and the long-term outlook for renewable energy creates multiple opportunities for the wind energy sector.

Vestas remains committed to its vision to be the global leader in sustainable energy solutions. Wind power will remain the core of Vestas' offerings, but at the same time the company envisions that a broadened focus on sustainable energy solutions will enlarge the wind turbine market, enable new revenue streams, and expand Vestas' presence in the market. In 2017, Vestas show-cased what future sustainable energy solutions would look like by combining wind, solar, and battery energy storage in the world's first utility-scale on-grid hybrid project.

To support its overall vision, Vestas remains dedicated to its four strategic objectives of being the global leader in the wind power plant solutions market and global leader in the wind power service market, while delivering the lowest cost of energy solutions and best-in-class global operations.

Strategic objectives

The strategy towards 2020 continues to revolve around the four strategic objectives that enable realising Vestas' vision:

- Global leader in the wind power plant solutions market
- Global leader in the wind power service solutions market
- Lowest cost of energy solutions
- Best-in-class global operations

For each of the strategic objectives, Vestas has set clear targets and defined a sub-set of strategic enablers to drive its organisation for- ward. Below, Vestas' high-level ambitions and selected strategic ena- blers tied to the four strategic objectives are outlined.

1. Global leader in the wind power plant solutions market

Vestas' ambition is to grow faster than the market to uphold its global leadership position in wind power, while delivering industry-leading margins. To achieve this, Vestas will continue to focus on profitable growth in mature and emerging markets, partnering more closely with customers on project origination and collaborating to develop fully optimised solutions. Furthermore, Vestas will continuously focus on transforming its commercial capabilities to support a gradual transition of its offerings and enable customers to win in auctions and other competitive tendering schemes.

2. Global leader in the service solutions market

Vestas' ambition is to organically grow its service business by more than 50 percent towards 2020 versus 2016 revenue, while also delivering best-in-class margins. To achieve this, Vestas will continue to fast-track its multibrand business, further develop its digital service offerings, and lower costs through an end-to-end value chain optimisation logic.

3. Lowest cost of energy solutions

Vestas' ambition is to reduce levelised cost of energy faster than market average. By doing so, Vestas aims to provide its customers with the highest returns on investment in the industry. Vestas' investments in new technology are the largest in the industry. Going forward, it is Vestas' ambition to sustain leadership in R&D investments in order to support an industry-leading portfolio of sustainable energy solutions. Furthermore, Vestas will increase focus on accelerating cost reductions through an end-to-end value chain focus.

4. Best-in-class global operations

Vestas' ambition is to have the most flexible and lowest cost of operations within the industry. Vestas' size and subsequent scale provide a competitive foundation for lowering costs at every stage of the value chain. To fully leverage its scale, Vestas will continuously optimise its production footprint and level of outsourcing to further improve flexibility, labour cost efficiency, and capital expenditure. Finally, working capital management remains a high priority for Vestas. Consequently, the company's focus remains on improving the cash conversion cycle and improving working capital.

As the industry is currently going through a transition, during which new opportunities will emerge, Vestas also needs to continually change and expand its ambitions.

Looking ahead to 2020, three key themes span across Vestas' strategic targets:

- **Raising the bar** – Vestas will set more ambitious targets to push the company to stay ahead of competition
- **Refining initiatives** – Expanding Vestas' strategic enablers to reflect new market realities
- **Accelerating execution** – Accelerating execution of new and existing enablers to deliver on the targets

Financial and capital structure targets and priorities

Vestas' financial and capital structure targets, as well as related dividend policy, link to the strategic aspirations of the company. Financial stability and structural strength of the balance sheet remain key priorities for the company. Both the Board of Directors as well as Executive Management believe that strong financial performance and stability are prerequisites for delivering excellent commercial results, and therefore adopt a conservative approach to the structure of the company's balance sheet, whilst at the same time ensuring that management focuses on delivering strong financial results.

Long-term financial ambitions

Vestas envisions market conditions which in the long term will reflect wind power having achieved merchant levels in the vast majority of markets. The wind industry is undergoing a transition towards a more mature, unsubsidised renewable energy industry. This transition leads to a highly competitive market, and will likely drive a further consolidation in the industry. Beyond the transition, a matured market for wind energy creates opportunities for Vestas to leverage and strengthen its leadership position.

Within this context, Vestas aims to grow faster than the market and be the market leader in revenue, to achieve an EBIT-margin of at least 10 percent and to generate a double-digit return on invested capital (ROIC) each year over the cycle. Vestas expects to be able to finance its own growth and hence the free cash flow is expected to be positive each financial year.

During the transition, revenue in the Service business is expected to grow organically by at least 10 percent annually, with stable EBIT-margins compared to 2017.

Capital structure targets

As a player in a market where projects, customers, and wind turbine investors become larger, Vestas aims to be a strong financial counterpart. In line with the prudent balance sheet approach, the target for the net debt/EBITDA ratio remains unchanged at below 1 at any point in the cycle. In addition, the target is a solvency ratio of minimum 25 percent by the end of each financial year.

Dividend policy and priorities for excess cash allocation

Any decision to distribute cash to shareholders will be taken in appropriate consideration of capital structure targets and availability of excess cash. Determining excess cash will be based on the company's growth plans and liquidity requirements, thus securing adequate flexibility to invest in Vestas' strategy, Profitable Growth for Vestas.

The general intention of the Board of Directors is to recommend a dividend of 25-30 percent of the net result of the year after tax.

In addition, Vestas may from time to time supplement with share buyback programmes in order to adjust the capital structure. Such share buy-backs, if any, will likely be initiated in the second half of the year based on realised performance.

In years without major extraordinary investments, the total distribution to shareholders through dividends and share buy-backs may constitute the majority of the free cash flow.

Social and environmental performance

UN Sustainable Development Goals

Vestas is committed to supporting the UN Sustainable Development Goals (SDGs). Six SDGs have been identified, which support the approach on how sustainability is powering development for Vestas and for its stakeholders and the many communities where the company plays a role. With SDG No. 7, Affordable and clean energy as the overarching goal, the other five selected SDGs are: Quality education (4); Decent work and economic growth (8); Responsible consumption & production (12); Climate action (13); and Partnerships for the goals (17).

Employees

During the first quarter of 2018, the number of employees increased by 607 to 23,910. Vestas will continue to scale the organisation according to, among other things, the expected activity level.

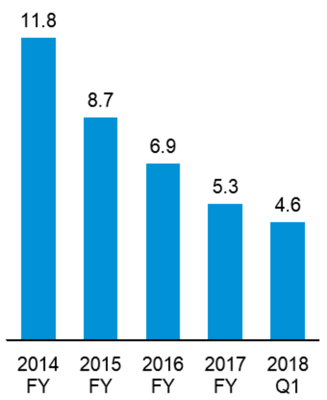
Safety

In the first quarter of 2018, the number of total recordable injuries decreased by 10 to 57 compared to the year-earlier quarter. The incidence of total recordable injuries decreased from 6.0 per one million working hours in the first quarter of 2017 to 4.6 in the first quarter of 2018, within the 2018 target rate of maximum 4.8.

Vestas has seen significant improvements in relation to reducing the number of injuries. From 2005 to 2017, Vestas has reduced the incidence of lost time injuries by 94 percent.

To anticipate injuries before they occur, Vestas employees register near-misses and hazard observations as well as injuries. Part of the incident handling is to assess if the incident in question had potential for serious injury, thereby preventing more injuries.

Incidence of total recordable injuries
Per one million working hours



Although Vestas has achieved a significant improvement in the occurrence of workplace injuries, the company has still seen a number of serious injuries and fatalities over the years.

Vestas is now placing increased focus on the incidents with high potential for serious injury or fatality. The incident management process has been strengthened in the identification and management of incidents with fatal exposure. Such incidents must be prioritised and immediately acted upon to ensure any potential risk to life is eliminated, and subsequently control mechanisms will follow up to ensure that no reoccurrence will take place.

Environmental performance

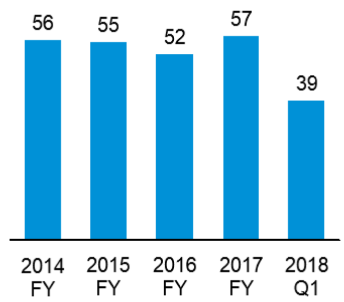
The increase that can be seen in the total environmental impact quarter on quarter – the waste generation and energy and water consumption from Vestas' manufacturing and service activities – stems from increase in production and service activities in first quarter of 2018.

Renewable energy

Vestas has achieved 100 percent sustainable renewable electricity consumption, partly by purchasing renewable electricity when available, and partly by compensating for the consumption of non-renewable electricity with Vestas-owned wind power plants.

In the first quarter of 2018, 39 percent of all energy consumption came from renewable energy sources. The decrease in the share of renewable energy for the quarter compared to full year is attributable to seasonality. Compared to same quarter last year, the lower level is further attributable to low average temperatures and higher activity levels. At the end of 2018, part of the non-renewable energy will be compensated with renewable electricity from Vestas-owned wind power plants.

Renewable energy
Percentage of total energy consumption



To limit the usage of fossil fuel in the growing service business, action plans have been developed regionally to minimise carbon emissions from vehicles in connection with service.

Outlook 2018

Revenue is expected to range between EUR 10bn and 11bn, including service revenue, which is expected to grow. Vestas expects to achieve an EBIT margin of 9-11 percent with the service EBIT margin remaining stable.

Total investments* are expected to amount to approx. EUR 500m, and free cash flow* is expected to be minimum EUR 400m in 2018.

It should be emphasised that Vestas' accounting policies only allow the recognition of revenue when the control has passed to the customer, either at a point in time or over time. Disruptions in production and challenges in relation to shipment of wind turbines and installation hereof, for example bad weather, lack of grid connections, and similar matters, may thus cause delays that could affect Vestas' financial results for 2018. Further, movements in exchange rates from current levels may also impact Vestas' financial results for 2018.

Outlook 2018

Revenue (bnEUR)	10-11
EBIT margin (%)	9-11
Total investments* (mEUR)	approx. 500
Free cash flow* (mEUR)	min. 400

*) Excl. the acquisition of Utopus Insights, Inc., any investments in marketable securities, and short-term financial investments.

Consolidated financial statements 1 January - 31 March

Condensed income statement 1 January - 31 March

mEUR	Note	Q1 2018	Q1 2017*
Revenue	1.1, 1.2	**1,694**	**1,885**
Production costs		(1,413)	(1,508)
Gross profit		**281**	**377**
Research and development costs		(48)	(42)
Distribution costs		(49)	(62)
Administration costs		(58)	(62)
Operating profit (EBIT)	1.1	**126**	**211**
Income from investments in joint ventures and associates		18	(11)
Net financial items		(7)	14
Profit before tax		**137**	**214**
Income tax		(35)	(54)
Profit for the period		**102**	**160**
Earnings per share (EPS)			
Earnings per share for the period (EUR), basic		0.50	0.75
Earnings per share for the period (EUR), diluted		0.50	0.75

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed income statement for the period should be read in conjunction with the accompanying notes.

Condensed statement of comprehensive income 1 January - 31 March

mEUR	Q1 2018	Q1 2017*
Profit for the period	**102**	**160**
Items that may be reclassified subsequently to the income statement:		
Exchange rate adjustments relating to foreign entities	(23)	(5)
Fair value adjustments of derivative financial instruments for the period	56	21
Fair value adjustments of derivative financial instruments transferred to the income statement, production costs	(1)	(8)
Share of other comprehensive income of joint venture	1	(7)
Tax on items that may be reclassified subsequently to the income statement	(12)	(3)
Other comprehensive income after tax for the period	21	(2)
Total comprehensive income for the period	**123**	**158**

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed balance sheet – Assets

mEUR	Note	31 March 2018	31 March 2017*	31 December 2017*
Goodwill		372	308	304
Completed development projects		296	317	309
Software		107	80	95
Other intangible assets		58	51	49
Development projects in progress		165	83	144
Total intangible assets		**998**	**839**	**901**
Land and buildings		683	777	704
Plant and machinery		239	232	248
Other fixtures, fittings, tools and equipment		224	212	222
Property, plant and equipment in progress		88	80	73
Total property, plant and equipment		**1,234**	**1,301**	**1,247**
Investments in associates and joint ventures		168	182	150
Other investments		34	25	30
Tax receivables		68	49	51
Deferred tax		238	232	218
Other receivables	3.3	142	52	72
Marketable securities	3.3	201	199	196
Total other non-current assets		**851**	**739**	**717**
Total non-current assets		**3,083**	**2,879**	**2,865**
Inventories		3,557	2,693	2,696
Trade receivables		886	840	1,144
Contract assets		12	11	82
Tax receivables		76	42	53
Other receivables	3.3	600	313	371
Marketable securities	3.3	2	2	7
Cash and cash equivalents		2,901	3,487	3,653
Total current assets		**8,034**	**7,388**	**8,006**
Total assets		**11,117**	**10,267**	**10,871**

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed balance sheet should be read in conjunction with the accompanying notes.

Condensed balance sheet – Equity and liabilities

mEUR	Note	31 March 2018	31 March 2017*	31 December 2017*
Share capital	3.1	29	30	29
Other reserves		58	59	37
Retained earnings		2,984	3,219	3,046
Total equity		**3,071**	**3,308**	**3,112**
Provisions	2.1	412	461	483
Deferred tax		81	55	61
Financial debts	3.3	497	496	497
Tax payables		166	37	166
Other liabilities	3.3	65	80	19
Total non-current liabilities		**1,221**	**1,129**	**1,226**
Prepayments from customers		3,514	2,687	2,923
Contract liabilities		306	134	159
Trade payables		2,198	2,246	2,660
Provisions	2.1	194	129	148
Tax payables		50	134	108
Other liabilities	3.3	563	500	535
Total current liabilities		**6,825**	**5,830**	**6,533**
Total liabilities		**8,046**	**6,959**	**7,759**
Total equity and liabilities		**11,117**	**10,267**	**10,871**

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed balance sheet should be read in conjunction with the accompanying notes.

Condensed statement of changes in equity – 3 months 2018

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total other reserves	Retained earnings	Total
Equity as at 1 January 2018	**29**	**(21)**	**60**	**(2)**	**37**	**3,046**	**3,112**
Impact on change in accounting policy (IFRS 15)	-	-	-	-	-	(54)	(54)
Adjusted equity as at 1 January 2018	**29**	**(21)**	**60**	**(2)**	**37**	**2,992**	**3,058**
Profit for the period	-	-	-	-	-	102	102
Other comprehensive income for the period	-	(23)	43	1	21	-	21
Total comprehensive income for the period		(23)	43	1	21	102	123
Transaction with owners:							
Acquisition (-) /disposal (+) of treasury shares	-	-	-	-	-	(112)	(112)
Share-based payments	-	-	-	-	-	2	2
Total transactions with owners	-	-	-	-	-	(110)	(110)
Equity as at 31 March 2018	**29**	**(44)**	**103**	**(1)**	**58**	**2,984**	**3,071**

Condensed statement of changes in equity – 3 months 2017*

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total other reserves	Retained earnings	Total
Equity as at 1 January 2017	**30**	**107**	**(61)**	**15**	**61**	**3,099**	**3,190**
Profit for the period	-	-	-	-	-	160	160
Other comprehensive income for the period	-	(5)	10	(7)	(2)	-	(2)
Total comprehensive income for the period	-	(5)	10	(7)	(2)	160	158
Transaction with owners:							
Acquisition (-) /disposal (+) of treasury shares	-	-	-	-	-	(52)	(52)
Share-based payments	-	-	-	-	-	3	3
Tax on equity transactions	-	-	-	-	-	9	9
Total transactions with owners	-	-	-	-	-	(40)	(40)
Equity as at 31 March 2017	**30**	**102**	**(51)**	**8**	**59**	**3,219**	**3,308**

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed cash flow statement 1 January - 31 March

mEUR	Note	Q1 2018	Q1 2017*
Profit for the period		102	160
Adjustment for non-cash transactions		43	233
Income tax paid		(115)	(118)
Financial cost paid, net		(13)	(17)
Cash flow from operating activities before change in net working capital		17	258
Change in net working capital		(485)	(262)
Cash flow from operating activities		**(468)**	**(4)**
Purchase of intangible assets		(60)	(44)
Purchase of property, plant and equipment		(58)	(40)
Disposal of non-current assets held for sale		-	99
Purchase of other non-current financial assets		-	(3)
Addition of shares in joint ventures		(1)	-
Cash flow from investing activities before acquisitions of subsidiaries, investments in marketable securities and short-term financial investments		**(119)**	**12**
Free cash flow before acquisitions of subsidiaries, investments in marketable securities and short-term financial investments		**(587)**	**8**
Acquisition of subsidiaries, net of cash	4.2	(65)	-
Free cash flow		**(652)**	**8**
Purchase of treasury shares		(95)	(55)
Cash flow from financing activities		**(95)**	**(55)**
Net decrease in cash and cash equivalents		**(747)**	**(47)**
Cash and cash equivalents at the beginning of period		3,653	3,550
Exchange rate adjustments of cash and cash equivalents		(5)	(16)
Cash and cash equivalents at the end of the period		**2,901**	**3,487**
The amount can be specified as follows:			
Cash and cash equivalents without disposal restrictions		2,498	3,101
Cash and cash equivalents with disposal restrictions		403	386
Total cash and cash equivalents		**2,901**	**3,487**

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed cash flow statement should be read in conjunction with the accompanying notes.

Notes

1 Result for the period

1.1 Segment information

mEUR	Power solutions	Service	Not allocated	Total Group
Q1 2018				
Revenue	1,328	366	-	1,694
Total revenue	**1,328**	**366**	**-**	**1,694**
Total costs	**(1,250)**	**(268)**	**(50)**	**(1,568)**
Operating profit (EBIT)	**78**	**98**	**(50)**	**126**
Income from investments in joint ventures and associates				18
Net financial items				(7)
Profit before tax				**137**
Amortisation and depreciation included in total costs	(82)	(7)	(10)	(99)

mEUR	Power solutions	Service	Not allocated	Total Group
Q1 2017				
Revenue	1,516	369	-	1,885
Total revenue	**1,516**	**369**	**-**	**1,885**
Total costs	**(1,325)**	**(298)**	**(51)**	**(1,674)**
Operating profit (EBIT)	**191**	**71**	**(51)**	**211**
Income from investments in joint ventures and associates				(11)
Net financial items				14
Profit before tax				**214**
Amortisation and depreciation included in total costs	(75)	(9)	(6)	(90)

In the first quarter of 2017, write-offs on service inventory of EUR 14m have been recognised and consequently negatively impacted the service EBIT.

1.2 Revenue

Vestas has applied IFRS 15 using the modified retrospective application, with the cumulative effect of initially applying the standard to be adjusted to the opening balance of retained earnings 2018, and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from these under IFRS 15 and the impact of changes is disclosed in Note 5.3.

Group accounting policies
Revenue is measured based on the consideration specified in a contract with a customer. Vestas recognises revenue when it transfers control over a product or service to a customer.

In comparative period, sale of individual wind turbines and wind power plants based on standard solutions (supply-only and supply-and-installation) was recognised in the income statement, provided that risk was transferred to the buyer. Revenue from contracts to deliver wind power plants with a high degree of customisation was recognised as the wind power plants was constructed based on the stage of completion of the individual contracts (turnkey projects). Service sales, comprising service and maintenance agreements as well as extended warranties regarding wind turbines and wind power plants sold, were recognised as revenue over the term of the agreement as the services were provided. Spare parts sales were recognised in the income statement provided that risk was transferred to the buyer.

Revenue recognition under IFRS 15
Revenue comprises sale of wind turbines and wind power plants, after-sales service, and sale of spare parts. The following is a description of the principal activities from which Vestas generates its revenue.

Supply-only projects
Revenue from sale of individual wind turbines based on standard solutions is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Vestas recognises revenue at a point in time, when control is transferred to the customer, and the consideration agreed is expected to be received. Control is generally deemed to be transferred upon delivery of the components in accordance with the agreed delivery plan.

Supply-and-installation projects
Revenue from sale of wind power plants based on standard solutions with alternative use is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Vestas recognises revenue when control of the fully operational turbine is transferred to the customer, and the consideration agreed is expected to be received. Control is deemed to be transferred at the point in time when the turbine is fully operational.

Turnkey projects
Revenue from contracts to deliver wind power plants with a high degree of customisation are recognised over time as the wind power plants are constructed based on the stage of completion of the individual contracts. Where the profit from a contract cannot be estimated reliably, revenue is only recognised equalling the cost incurred to the extent that it is probable that the costs will be recovered.

Service sales
Revenue from service sales, comprising services and maintenances agreements as well as extended warranties regarding wind turbines and wind power plants sold, are recognised over the term of the agreement as the services are provided. Spare parts sales are recognised at a point in time when control has been transferred to the customer, and provided that consideration agreed is expected to be received.

Key accounting estimates and judgements
Management performs significant accounting estimates in connection with determining the appropriate income recognition of contract elements. In certain situations, Supply-only projects contain elements that in nature are associated with a high degree of estimations regarding allocation of consideration under a contract to elements already delivered and elements to be delivered in the future.

Vestas applies the percentage-of-completion method in accounting for service contracts and certain wind power plants, in general projects with a high degree of customisation. The use of the percentage-of-completion method requires Management to determine the stage of completion by reference to the contract costs incurred for work performed to date in proportion to the estimated total contract costs (cost-to-cost method). Based on the estimated stage of completion, a respective portion of the consideration is recognised.

Disaggregation of revenue
In the following section, revenue is disaggregated by sale of projects and sale of service, by primary geographical market, major contract types and timing of revenue recognition.

mEUR	Power solutions		Service		Total	
	Q1 2018	Q1 2017*	Q1 2018	Q1 2017*	Q1 2018	Q1 2017*
Timing of revenue recognition						
Products and services transferred at a point in time	985	1,450	46	56	1,031	1,506
Products and services transferred over time	343	66	320	313	663	379
	1,328	1,516	366	369	1,694	1,885
Revenue from contract types						
Supply-only	327	797	-	-	327	797
Supply-and-installation	743	653	-	-	743	653
Turnkey (EPC)	258	66	-	-	258	66
Service	-	-	366	369	366	369
	1,328	1,516	366	369	1,694	1,885
Primary geographical markets						
EMEA	733	693	224	198	957	891
Americas	369	750	108	134	477	884
Asia Pacific	226	73	34	37	260	110
	1,328	1,516	366	369	1,694	1,885

*) Vestas has initially applied IFRS 15 using modified retrospective application. Under this method, the comparative information is not restated. See note 5.3

2 Other operating assets and liabilities

2.1 Warranty provisions (included in provisions)

mEUR	31 March 2018	31 March 2017	31 December 2017
Warranty provisions, 1 January	566	524	524
Impact on change in accounting policy (IFRS 15)	(13)	-	-
Provisions for the period	27	35	185
Warranty provisions consumed during the period	(41)	(23)	(143)
Warranty provisions	**539**	**536**	**566**
The provisions are expected to be payable as follows:			
< 1 year	183	107	132
> 1 year	356	429	434

In the first quarter of 2018, warranty provisions charged to the income statement amounted to EUR 27m, equivalent to 1.6 percent of revenue. Warranty consumption amounted to EUR 41m – compared to EUR 23m in the first quarter of 2017. Over the last 12 months, warranty consumption as a percentage of revenue amounted to 1.6 percent.

In general, provisions are made for all expected costs associated with wind turbine repairs or replacements, and any reimbursement from other involved parties is not offset unless a written agreement has been made to that effect. Provisions are made to cover possible costs of remedy and other costs in accordance with specific agreements. Provisions are based on estimates, and actual costs may deviate substantially from such estimates.

2.2 Contingent assets and liabilities

On 31 July 2017, General Electric (GE) filed a complaint against Vestas Wind System A/S and Vestas-American Wind Technology, Inc. (Vestas) in the US federal court in Los Angeles, California. GE claims infringement of its US Patents No. 7,629,705 and No. 6,921,985 (the “705 Patent” and the “985 Patent”). The 705 Patent addresses Zero Voltage Ride Through technology. The 985 Patent addresses techniques to maintain functioning of the blade pitch system during low voltage events. Vestas answered and counterclaimed on 15 December 2017. As set forth in its counterclaims, it is Vestas' assessment that GE's patents are invalid and unenforceable, and that Vestas does not infringe. Consequently, Vestas has made no provision to cover the complaint. However, in the event that Vestas is not successful in its defence in this case, and GE prevails, this case could potentially have significant financial impact on Vestas. As GE has not claimed any specific amount from Vestas, it is not possible for Vestas to estimate such financial impact any further at this point in time.

No other significant changes have occurred to contingent assets and liabilities or types and scale of assets and liabilities compared to what is disclosed in the consolidated financial statements in the annual report 2017, note 3.6, page 92.

3 Capital structure and financing items

3.1 Share capital

Pursuant to authorisation granted to the Board of Directors by the Annual General Meeting on 6 April 2017, which authorised Vestas to acquire treasury shares at a nominal value not exceeding 10 per cent of the share capital at the time of authorisation, Vestas initiated a share buy-back programme during 2018 on 12 February 2018.

The purpose of the share buyback programme was to adjust Vestas' share capital and to meet obligations arising from the share based incentive programmes to employees of Vestas.

Treasury shares

Number of shares / Nominal value (DKK)	**31 March 2018**	**31 March 2017**	**31 December 2017**
Treasury shares as at 1 January	11,843,929	7,770,888	7,770,888
Purchases for the period	1,921,793	854,591	10,503,515
Cancellation for the period	-	-	(6,047,780)
Sale of treasury shares for the period	(333,788)	(60,357)	(382,694)
Treasury shares	**13,431,934**	**8,565,122**	**11,843,929**

3.2 Financial risks

Financial risks, including liquidity, credit, and market risks were addressed in the notes to the Consolidated financial statements in the Annual report 2017, note 4.5, page 96-101. The risks remain similar in nature compared to 2017.

3.3 Financial instruments

As at 31 March 2018, the fair value of marketable securities was EUR 203m, equal to book value. Derivative financial instruments was positive with a market value of net EUR 142m, equal to book value, and included in other receivables and other liabilities with EUR 340m and EUR 198m, respectively.

Financial instruments measured at fair value has been categorised into level 1, 2, and 3 as addressed in the Annual report 2017, note 4.7, page 105. There have been no significant new items compared to 2017 and there have been no significant transfers between levels.

The book value of the Green Corporate Eurobond was EUR 497m with a corresponding fair value of EUR 531m as at 31 March 2018.

4 Other disclosures

4.1 Related party transactions

Vestas has had the following material transactions with joint ventures:

mEUR	Q1 2018	Q1 2017
MHI Vestas Offshore Wind A/S		
Revenue for the period	37	126
Receivable as at 31 March	28	86
Roaring Fork Wind, LLC		
Prepayments balance as at 31 March	84	79

No other significant changes have occurred to related parties or types and scale of transactions with these parties other than what is disclosed in the consolidated financial statements in the Annual report 2017, note 6.4, page 113.

4.2 Business combinations

Acquisition of Utopus Insights, Inc.

On 4 February 2018, Vestas acquired 100 percent of the share capital of Utopus Insights, Inc. (”Utopus”), a leading energy analytics and digital solutions company. The acquisition significantly improves Vestas' existing market-leading capabilities for advanced analytics and integrated energy software solutions.

The goodwill of EUR 70m arising from the acquisition is attributable to synergies expected from combining the operations of Vestas and Utopus. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the considerations paid for Utopus, the fair value of assets acquired and liabilities assumed at the acquisition dates.

mEUR	Utopus
Cash	70
Contingent consideration	11
Total consideration	**81**

The acquisition price for Utopus is EUR 65m on a debt and cash free basis. The consideration has been paid in cash from readily available sources.

mEUR	Utopus
Technology (included in Other intangible assets)	13
Cash	5
Deferred tax liability	(3)
Trade payables	(1)
Other liabilities	(3)
Total identifiable net assets	**11**
Goodwill	70
Total	**81**

The contingent consideration arrangement requires Vestas to pay, in cash, to the former owners of Utopus, an earn-out up to EUR 16m, undiscounted, contingent on revenue in 2020.

The fair value of the acquired identifiable net asset of EUR 11m (including Technology) is provisional pending final valuations for those assets.

The revenue included in the consolidated income statement since 14 February 2018 contributed by Utopus was EUR 0m. Utopus also contributed loss after tax of EUR 1m over the same period.

Had Utopus been consolidated from 1 January 2018, the consolidated income statement would have been impacted with revenue of approx EUR 4m and profit after tax of approx. EUR 2m.

The revenue, costs and EBIT from Utopus are allocated to the Service segment.

5 Basis for preparation

5.1 General accounting policies

The interim financial report of Vestas comprises a summary of the consolidated financial statements of Vestas Wind Systems A/S and its subsidiaries.

The interim financial report has been prepared in accordance with IAS 34, *Interim Financial Reporting* as adopted by the EU and additional Danish disclosure requirements for interim financial reporting of listed companies.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made during the interim reporting period.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected annual profit or loss.

5.2 Key accounting estimates and judgements

When preparing the interim financial reporting of Vestas, management makes a number of accounting estimates and assumptions which form the basis of the recognition and measurement of Vestas' assets and liabilities. The estimates and assumptions made are based on experience and other factors that management considers reasonable in the circumstances. Reference is made to the consolidated financial statements in the annual report for the year ended 31 December 2017, note 7.2, page 119.

5.3 Changes in accounting policies and disclosures

Except for the changes below, the accounting policies remain unchanged compared to the annual report for the year ended 31 December 2017, to which reference is made.

Impact of new accounting standards for first quarter 2018

Vestas has implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2018 financial year, including:

- IFRS 15, Revenue from Contracts with Customers (effective date 1 January 2018)
- Clarifications to IFRS 15, Revenue from Contracts with Customers (effective date 1 January 2018)
- IFRS 9, Financial Instruments (effective date 1 January 2018)

None of these new or amended accounting standards and clarifications resulted in any significant changes to the accounting policies for Vestas or had significant impact on recognition or measurement in the consolidated financial statements in the first quarter of 2018. Management does not anticipate any significant impact on future periods from the adoption of these new or amended accounting standards and interpretations.

IFRS 15, Revenue from Contracts with Customers and Clarifications to IFRS 15

IFRS 15 has been implemented in Vestas' consolidated financial statements for the financial year beginning on 1 January 2018. Vestas has applied IFRS 15 using modified retrospective application, with the cumulative effect of initially applying the standard to be adjusted to the opening balance of retained earnings 2018. The transition impact and the opening equity has been impacted negatively by EUR 54m as at 1 January 2018.

Consequently, first quarter 2017 comparative figures are reported according to IAS 11/IAS 18 and are not restated to reflect the numbers according to IFRS 15. In the table below, 2018 numbers according to both IFRS 15 and IAS 11/IAS 18 are disclosed so as to provide comparability between 2017 and 2018 and to disclose the effect from the changed regulation.

Under IFRS 15, total revenue of a contract will remain unchanged compared to IAS 11/IAS 18; however, the timing of the revenue recognition will be deferred for supply-only and turnkey contracts. The details of the changes and quantitative impact of the changes are set out below.

Supply-only projects

Vestas continues to recognise revenue for supply-only projects at a point in time; however, under IFRS 15 revenue is deferred as control is deemed to be transferred to the customer upon delivery of the components in accordance with the agreed delivery plan, which is at a later stage compared to IAS 11/IAS 18.

Turnkey projects

Vestas continues to recognise revenue for turnkey projects over time applying the percentage-of-completion method; however, under IFRS 15 work performed as part of the percentage-of-completion method is assessed to be executed at a later stage, which is deferring revenue.

Impact on financial statements

The following table summarise the impacts of adapting IFRS 15 in the consolidated financial statements. There is no material impact on Vestas' basic or diluted earnings per share for Q1 2018.

Impact on income statement - Q1 2018

mEUR	As reported	Adjustments Total	Balances without adoption of IFRS 15
Revenue	**1,694**	**(54)**	**1,640**
Production costs	(1,413)	43	(1,370)
Gross profit	**281**	**(11)**	**270**
Research and development costs	(48)	-	(48)
Distribution costs	(49)	-	(49)
Administration costs	(58)	-	(58)
Operating profit (EBIT)	**126**	**(11)**	**115**
Income from investments in joint ventures and associates	18	-	18
Net financial items	(7)	-	(7)
Profit before tax	**137**	**(11)**	**126**
Income tax	(35)	2	(33)
Profit for the period	**102**	**(9)**	**93**

The following table summarises the impact on net working capital of adapting IFRS 15 in Vestas' consolidated financial statements.

Impact on Net Working Capital 31 March 2018

mEUR	**As reported**	**Adjustments Total**	**Balances without adoption of IFRS 15**
Inventories	3,557	(193)	3,364
Receivables	1,486	-	1,486
Contract assets / liabilities*	(294)	168	(126)
Prepayments from customers	(3,514)	98	(3,416)
Trade payables	(2,198)	-	(2,198)
Other current liabilities	(563)	-	(563)
Net Working Capital as at 31 March 2018	**(1,526)**	**73**	**(1,453)**

*) As part of the implementation of IFRS 15, Vestas has changed the name of Construction contracts in progress to Contract assets and Contract liabilities

IFRS 9, Financial Instruments

As stated in the Annual report 2017, Vestas has adopted IFRS 9 effective from 1 January 2018. IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments. The implementation of IFRS 9 has not affected the recognition, measurement and classification of Vestas' financial instruments, but has aligned the way that Vestas undertakes risk management activities with the hedge accounting qualification criteria.

Figures and disclosures for the comparative periods are not restated as the classification and measurement requirements are not impacting Vestas.

The effect of the change from the 'incurred loss' model in IAS 39 to the 'expected credit loss' model in IFRS 9 is considered immaterial due to the low credit risk in Vestas. The immaterial effects of implementing IFRS 9 end of 2017 have been recognised in the first quarter of 2018.

Management’s statement

The Executive Management and the Board of Directors have today discussed and approved the interim financial report of Vestas Wind Systems A/S for the period 1 January to 31 March 2018.

The interim financial report has been prepared in accordance with IAS 34 on interim financial reporting as adopted by the EU, accounting policies set out in the Annual Report 2017 of Vestas and additional Danish disclosure requirements for interim financial reports of listed companies. The interim financial report has neither been audited nor reviewed.

In our opinion the accounting policies used are appropriate and the interim financial report gives a true and fair view of Vestas' assets, liabilities, and financial position as at 31 March 2018 and of the results of Vestas' operations and cash flow for the period 1 January to 31 March 2018.

Further, in our opinion the management report gives a true and fair review of the development in Vestas' operations and financial matters, the results of Vestas' operations for the period and Vestas' financial position as a whole and describes the significant risks and uncertainties pertaining to Vestas.

Besides what has been disclosed in the interim financial report, no changes in Vestas’ most significant risks and uncertainties have occurred relative to what was disclosed in the Annual report 2017.

Aarhus, Denmark, 4 May 2018

Executive Management

Anders Runevad
Group President & CEO

Marika Fredriksson
Executive Vice President & CFO

Anders Vedel
Executive Vice President & CTO

Jean-Marc Lechêne
Executive Vice President & COO

Juan Araluce
Executive Vice President & CSO

Board of Directors

Bert Nordberg
Chairman

Lars Josefsson
Deputy Chairman

Carsten Bjerg

Eija Pitkänen

Henrik Andersen

Henry Sténson

Torben Ballegaard Sørensen

Lykke Friis

Jens Hesselberg Lund

Kim Hvid Thomsen*

Michael Abildgaard Lisbjerg*

Sussie Dvinge Agerbo*

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Disclaimer and cautionary statement

This document contains forward-looking statements concerning Vestas' financial condition, results of operations and business. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements.

Forward-looking statements include, among other things, statements concerning Vestas' potential exposure to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections, and assumptions. A number of factors that affect Vestas' future operations and could cause Vestas' results to differ materially from those expressed in the forward-looking statements included in this document, include (without limitation): (a) changes in demand for Vestas' products; (b) currency and interest rate fluctuations; (c) loss of market share and industry competition; (d) environmental and physical risks, including adverse weather conditions; (e) legislative, fiscal, and regulatory developments, including changes in tax or accounting policies; (f) economic and financial market conditions in various countries and regions; (g) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, and delays or advancements in the approval of projects; (h) ability to enforce patents; (i) product development risks; (j) cost of commodities; (k) customer credit risks; (l) supply of components; and (m) customer created delays affecting product installation, grid connections and other revenue-recognition factors.

All forward-looking statements contained in this document are expressly qualified by the cautionary statements contained or referenced to in this statement. Undue reliance should not be placed on forward-looking statements. Additional factors that may affect future results are contained in Vestas' annual report for the year ended 31 December 2017 (available at vestas.com/investor) and these factors also should be considered. Each forward-looking statement speaks only as of the date of this document. Vestas does not undertake any obligation to publicly update or revise any forward-looking statement as a result of new information or future events other than as required by Danish law. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this document.